



# Washington State Board of Accountancy

## Report on Auditor Independence

November 12, 2003

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Substitute House Bill 1211 signed into law on May 14, 2003 requires the Washington State Board of Accountancy (Board) to report by December 1, 2003 to the Senate Committee on Commerce and Trade and the House Committee on Commerce and Labor on the issue of auditor independence. This report fulfills that requirement.

### Executive Summary

Auditor independence fortifies the integrity of financial information and protects the public when making financial decisions based on that information. A lack of auditor independence can create harm regardless of the type, structure, or size of the organization being audited.

Washington State is a forerunner in addressing this area of public protection. In response to the recent national financial crisis, the Legislature immediately implemented proactive and progressive steps to fortify auditor independence and objectivity. Over the last two and one-half years the Washington Legislature implemented the following reforms:

- ✓ Required prompt self-reporting by CPAs and CPA firms of enforcement action by other state and federal regulatory agencies
- ✓ Strict CPA work paper retention requirements
- ✓ Increased fines for violations to \$30,000
- ✓ Funded the Board's statewide consumer awareness program
- ✓ Funded the Board's statewide publication of egregious violations by CPAs and CPA firms

It is important to note that these legislative reforms apply to all auditors, not just those CPAs that audit publicly traded companies. The Board rapidly adopted the necessary rules and implemented the reforms. We have experienced a positive impact on public awareness and we expect the Board's enforcement efforts to be strengthened. We express our appreciation to the Legislature for this support.

The risks associated with the audits of publicly held companies differ significantly from those resulting from the audits of private or non-publicly held companies. The Board is concerned with both.

Sarbanes-Oxley addresses the serious, broad public risk associated with the integrity of financial information related to publicly traded companies. This includes tough rules regulating the independence of auditors of Securities and Exchange Commissions (SEC) regulated (or publicly held) companies. The best way to ensure public protection is for the Board to assist and support the inspection and enforcement activities of the SEC and the Public Company Accounting Oversight Board, to obtain violation information from these regulatory bodies, and to use that information to take immediate, severe, and public action against Washington State CPAs and CPA firms found guilty of violating the public's trust.

To support this report, the Board queried its stakeholders regarding adopting the three remaining independence provisions of Sarbanes-Oxley that have not been adopted by the Washington State Legislature at the non-publicly held company level. Those three provisions are: (1) audit partner rotation, (2) prohibitions against a CPA firm from auditing an organization where the CEO, CFO or chief accountant previously worked for the CPA firm, and (3) prohibiting auditors from providing certain non-attest services, such as consulting, to the firms that they audit.

We received responses from the banking industry, privately held companies, small businesses, not-for-profit organizations, government organizations, sole-practitioning CPAs, mid-sized CPA firms, and professional organizations.

Virtually 100% of the responses and comments received were negative.

Stakeholders cited a lack of evidence of problems similar to those identified with the audits of large publicly-traded companies, the costs to the CPA and CPA firm associated with such regulation, and the fact that such costs would be transferred to the CPA's client which in most all cases is a small business. Stakeholders also stated such regulations would decrease the number of auditors, decrease competition, drive costs up even further and limit small businesses' access to professional services.

The Board believes the objectives of the three remaining Sarbanes-Oxley provisions, which are auditor independence and objectivity, are absolute requirements to ensure public protection in all audits, regardless of the type of company being audited.

However, the dangers associated with the audits of privately held companies are significantly lower and the risk to market integrity is in most cases nil. The Board concurs with our stakeholders. Implementation of the three remaining Sarbanes-Oxley independence provisions at the non-public company level (i.e., at the state-level) would have a serious and negative impact on small business vitality in the state of Washington, including the stability of mid-sized and small CPA firms.

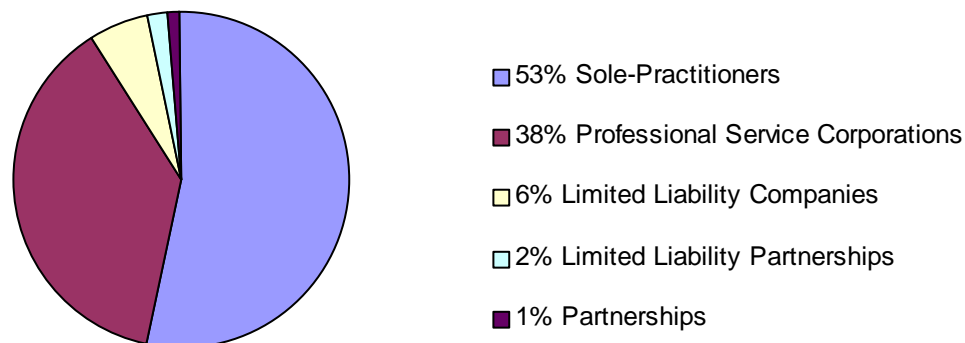
Due to the Legislature's proactive actions in 2001 and 2003, Washington is a leader in regulating auditor independence and public protection. Other states are just now considering similar reforms. In fact, other states have looked to Washington's reforms as language for a national model act.

These legislative reforms, combined with national reforms, the Board's new principle-based independence rule and the Board's recent fortifications to its quality assessment review program (the program that audits the auditor), rectify any gaps in regulations that could allow abuses, solidify independence regulations, and protect our public.

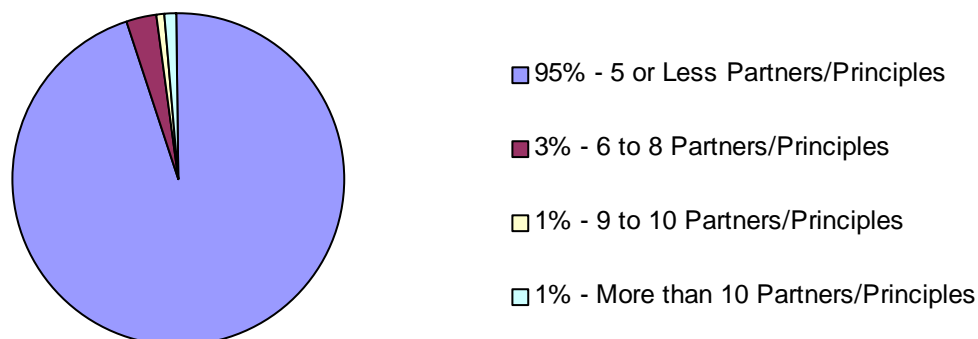
We believe Washington's current regulatory structure soundly addresses the issue of auditor independence.

## Background

The Board regulates approximately 14,000 CPAs and 2,000 CPA firms. Washington's CPA firms are primarily small CPA firms serving small business clients. Washington's CPA firms are comprised of sole-practitioners (53%), professional service corporations (38%), limited liability companies (6%), limited liability partnerships (2%) and partnerships (1%):



Of the 47% of Washington's firms that are organized as partnerships, professional service corporations, or limited liability companies, 95% have less than 5 partners/principles, 3% have 6 to 8 partners/principles, 1% have 9 to 10 partners/principles, and 1% have more than 10 partner/principles:



Washington's CPA firms offer a variety of services to the public: accounting, attest, tax, management consulting, tax advisory, etc. Attest-type services include audit, review and compilation services. Attest services are those services provided by a CPA where a third party relies on the CPA's report thus mandating the need for auditor independence.

Of Washington's 2,000 CPA firms approximately 50% perform attest services.

Responding to the national crisis arising from the corporate, auditor, and accounting breakdowns and the resulting decline in investor confidence in U.S. capital markets, in 2002 Congress passed the Sarbanes-Oxley Act. CPA firms that audit or perform reviews of publicly traded companies must comply with the provisions of the Sarbanes-Oxley Act.

Recognizing that the Sarbanes-Oxley provisions "may impose an undue burden on certain small accounting firms" Congress exempted CPA firms with fewer than ten partners and fewer than five SEC audit clients from two key provisions of the Act: (1) required audit partner rotation and (2) prohibitions against CPAs and CPA firms from providing certain consulting and other services to audit and review clients.

Approximately 20 CPA firms, or 1% of Washington's total CPA firms, perform audit or review services for public-traded companies registered with the Securities and Exchange Commission (SEC). Those 20 firms are regulated by the provisions of the Sarbanes-Oxley Act of 2002, the SEC, and the newly formed Public Company Accounting Oversight Board (PCAOB).

In May 2003 Washington's Legislature implemented significant reforms to fortify the integrity of financial information of both publicly and non-publicly traded companies through the passage of Substitute House Bill 1211 (SHB 1211). The three key provisions of SHB 1211 are: (1) require self-reporting by CPAs and CPA firms of action taken by certain enforcement agencies, (2) require seven-year audit and review workpaper retention period, and (3) increase Board fining authority.

Section I of this report describes national-level initiatives addressing the issue of auditor or CPA independence.

Section II describes the Board's rule-making activities in the areas of auditor independence and implementation of the reforms of SHB 1211.

Section III highlights the results of the Board's request for stakeholder input on implementation of the auditor independence provisions of the Sarbanes-Oxley Act at the state level.

## **Section I - National-level Regulatory Initiatives**

This section presents a summary of the major activities related to the regulation of auditor independence occurring at a national level. We present information on the activities of the Securities and Exchange Commission (SEC), the Public Company Accounting Oversight Board (PCAOB), the U. S. General Accounting Office (GAO), and the National Association of State Boards of Accountancy (NASBA).

## A. Securities and Exchange Commission (SEC)

The Sarbanes-Oxley Act charged the SEC with rule making to adopt the provisions of the Act.

Rule making on auditor records retention requirements was completed on January 22, 2003. Accounting firms are required to retain records relevant to the audits or reviews of issuers' and registered investment companies' financial statements for a period of seven years after the auditor concludes the audit or review of the financial statements. [SEC Release #2003-11]

Rule making related to auditor independence was finalized on January 28, 2003 with the new rules taking effect May 6, 2003. These rules "revise the Commission's regulations related to the non-audit services that, if provided to an audit client, would impair an accounting firm's independence; require that an issuer's audit committee pre-approve all audit and non-audit services provided to the issuer by the auditor of an issuer's financial statements; prohibit certain partners on the audit engagement team from providing audit services to the issuer for more than five or seven consecutive years depending upon the partner's involvement in the audit; prohibit an accounting firm from auditing an issuer's financial statements if certain members of management of that client had been members of the accounting firm's audit engagement team within the one-year period preceding the commencement of audit procedures; require the auditor to report certain matters to the issuer's audit committee, including critical accounting policies used by the issuer, and require disclosures to investors of information related to audit and non-audit services provided by, and fees paid to, the auditor of the issuer's financial statements. In addition, under the final rules, an accountant would not be independent from an audit client if an audit partner received compensation based on selling engagements to that client for services other than audit, review and attest services." [SEC Release #33-8183; 34-47265; 35-272642; IC-25915; IA-2103, FR-68, File No. S7-49-02]

The Sarbanes-Oxley Act required the SEC to study enforcement actions over the five years preceding the enactment of the Act and to report its findings to Congress, including a discussion of recommended regulation or legislation. Section VI of the SEC's January 24, 2003 "Report Pursuant to Section 704 of the Sarbanes-Oxley Act of 2002" addresses the "Role of the Auditors."

In summary, the SEC's review concluded that approximately 16% of the SEC's enforcement matters against auditors were related to failure to maintain independence. The majority (84%) of enforcement matters against auditors were associated with substandard audit work (i.e., failure to comply with generally accepted auditing standards). In its Report the SEC notes that Sarbanes-Oxley provides additional enforcement tools that will substantially help the SEC in regulating auditors.

Addressing the need for additional auditor independence reforms, the SEC Report concludes: "The Sarbanes-Oxley Act has created a mechanism to address any necessary reform of the auditing process through the establishment of the Board [the Public Company Accounting Oversight Board]. At this point, the Commission is not recommending additional reforms to the accounting and auditing process, choosing instead to focus on the implementation of the provisions of the Sarbanes-Oxley Act, and to support the efforts of the Board to meet its statutory mandate."

## **B. Public Company Accounting Oversight Board (PCAOB)**

The PCAOB is a private sector, non-profit corporation, created by the Sarbanes-Oxley Act to oversee the auditors of public companies in order to protect the interests of investors and further the public interest in the preparation of informative, fair, and independent audit reports. The Sarbanes-Oxley Act prohibits CPA firms that are not registered with the PCAOB from preparing or issuing audit reports on U.S. public companies and from participating in such audits.

The Act authorizes the PCAOB to establish auditor independence standards, auditing and related attestation standards, quality control standards, and ethics standards to be used by CPA firms registered with the PCAOB. The Act further grants the PCAOB broad investigative and disciplinary authority over registered CPA firms and persons associated with such firms.

The PCAOB will conduct regular and special inspections to assess each registered CPA firm's degree of compliance with the Act, the PCAOB rules, the SEC rules, and professional standards. Registered CPA firms issuing auditor reports for more than 100 public traded companies are subject to annual PCAOB inspections. All other registered CPA firms are inspected triennially.

The PCAOB also conducts investigations concerning any acts or practices by registered CPA firms that may violate any provision of the Act, the rules of the PCAOB, the rules of the SEC issued under the Act, the provisions of the securities laws relating to the preparation and issuance of audit reports, and/or professional standards.

PCAOB rules require registered CPA firms to cooperate with PCAOB investigations, including producing documents and providing testimony. The rules also permit the PCAOB to seek information from other persons, including clients of registered CPA firms.

The PCAOB may impose sanctions to deter recurrence and to enhance the quality and reliability of audits. The sanctions may include revoking a CPA firm's registration with the PCAOB, barring a CPA from participating in audits of public companies, monetary penalties, and requirements for remedial measures (training, quality control procedures, an independent monitor, etc.).

## **C. U. S. Government Accounting Office (GAO)**

The Sarbanes-Oxley Act mandated the GAO study the:

- Implications of consolidation on competition and client choice, audit fees, audit quality, and auditor independence
- Impact of consolidation on capital formation and securities markets and
- Barriers to entry faced by smaller accounting firms in competing with the largest firms for large public company audits

The GAO concluded that, after consolidations, the largest CPA firms have the potential for significant market power. The GAO also determined:

- There is no evidence, to date, of impaired competition resulting from consolidation of audit firms
- There is no conclusive evidence, to date, of a direct correlation between consolidation of audit firms and audit fees
- There is no link, to date, between consolidation of audit firms and audit quality and auditor independence
- Past behavior may not be indicative of future behavior and these potential implications may warrant additional study in the future

The GAO further concluded that:

- Smaller CPA firms face significant barriers to entry into the large public company audit market
- Certain factors and conditions could cause a further reduction in the number of major accounting CPA firms

Finally, in January 2002 the GAO adopted a new principle-based independence rule that applies to auditors of federal, state and local governments as well as not-for-profit and for profit recipients of federal grant and loan assistance

#### **D. National Association of State Boards of Accounting (NASBA)**

In June 2003 representatives from the 54 state and jurisdictional members of NASBA convened and, over a period of four days, discussed the concept of implementing the provisions of Sarbanes-Oxley at a state level. As a result of these discussions NASBA issued "Guidelines for State Boards of Accountancy" regarding implementing the key provisions Sarbanes-Oxley at a state level.

The following addresses the Guidelines related to auditor independence:

1. Guidelines to state boards of accountancy regarding CPAs providing non-attest services to audit clients:
    - Embrace the SEC's auditor independence rules<sup>①</sup>
    - Enforce the AICPA's Code of Professional Conduct<sup>①</sup>
    - Require auditors to be independent in fact and appearance<sup>①</sup>
    - Reference nationally accepted standards in state rules<sup>①</sup>
    - Consider what additional monitoring is being done by other agencies and organizations<sup>②</sup>
    - Require licensees to disclose fees for services<sup>③</sup>
- ① Currently and historically required and enforced by the Washington State Board
- ② Considered by the Washington State Board in rule-making, policy making and enforcement
- ③ Required by rule for CPAs receiving commissions, contingent and referral fees

2. Guideline to state boards of accountancy regarding partner rotation:
  - Do *not* require rotation of the audit partner on non-public company audits because it would likely require small firms, with fewer qualified audit partners, to resign from audit engagements. As a result, fewer small firms would continue to perform audit services and less competition would offer less choice for services and possible higher costs to consumers<sup>①</sup>

① Currently *not* required by the Washington State Board

## Section II - Washington State Board of Accountancy Rule Making

### A. Independence Committee

Acknowledging serious concerns with the effectiveness of the regulations governing CPA independence, in 2002 the Board established an Independence Committee comprised of representatives from key stakeholder groups to review the effectiveness of the Board's regulations governing CPA independence.

To ensure broad public input, the Independence Committee was comprised of representatives from: banking, labor, retirement funds, governmental organization, small businesses, publicly-traded organizations, insurance firms, the Washington Society of CPAs, the Washington Association of Accountants, and representatives from large, mid-sized, and sole-practitioner CPA firms. (*See Attachment A - Independence Committee Roster*)

The Independence Committee undertook a deliberative and thoughtful review of auditor independence initiatives at a national level and similar activities in other states. The Independence Committee considered various alternatives and solicited and received public comment throughout its considerations. The Independence Committee incorporated public comments into drafting its recommendation to the Board.

As a result of its efforts, on July 25, 2003 the Independence Committee submitted a recommendation to the Board to repeal its current independence rule and adopt a principles-based independence rule.

### B. The Board's Rule Making on Independence and Implementation of the Provisions of SHB 1211

#### 1. Independence Rule

The Board accepted the Independence Committee's recommendation and held a rules hearing on the proposed new principle-based independence rule on October 30, 2003. The Board considered stakeholder input and on October 31, 2003 adopted the new independence rule.



The new independence rule provides the Board with an enforcement tool to sanction a CPA or CPA firm that complies with the professions' detailed and specific independence requirements and yet fails to meet the high level independence principles required to ensure the integrity of financial information and public protection.

## **2. Implementing the Reforms of SHB 1211**

SHB 1211 implemented reforms similar to Sarbanes-Oxley at the state-level. Whereas only 20 of Washington's CPA firms must meet the provisions of the Sarbanes-Oxley Act, 100% of Washington's CPA firms must comply with the reforms of SHB 1211.

In summary, SHB 1211:

- (a) Increased the Board's fining authority from \$10,000 to \$30,000
- (b) Required CPAs to retain audit and review workpapers for seven years
- (c) Required CPAs and CPA firms to self-report, to the Board, enforcement action by certain other state and federal regulatory agencies

On July 25, 2003 the Board drafted rule proposals implementing SHB 1211 and distributed the proposals to approximately 250 stakeholder organizations/individuals and posted the proposals to the Board's website. On October 30, 2003 the Board held a rules hearing on the proposed rules and on October 31, 2003 the rules were adopted.

## **Section III - Implementation of the Auditor Independence Provisions of the Sarbanes-Oxley Act on a State Level**

To support this Report to the Legislature, the Board solicited public comment on implementing the three remaining independence provisions of Sarbanes-Oxley at the state, or non-publicly held company level:

- (1) Required audit partner rotation
- (2) Prohibiting a CPA firm from auditing an organization if the CEO, CFO or chief accountant of the organization participates in the audit of the organization
- (3) Prohibitions against the auditor's provision of certain non-audit services

The Board received 46 comments from small businesses, banking, privately held corporations, not-for profit organizations, governmental organizations, sole-practitioners, small and mid-sized CPA firms, and professional organizations. For the Board, which solicits public comment approximately six times each year, this is an uncommonly large number of responses.

Virtually no comments were supportive of implementing any one of the three Sarbanes-Oxley independence provisions at the state or non-publicly held company level.

Rather than summarizing the comments received, we feel the stakeholders' comments provide a relevant and clear perspective of the anticipated consequences should the three auditor independence provisions of Sarbanes-Oxley be implemented at the state level. The following comments, noted as to stakeholder group, are a reflective sample of the input received.

**A. Comments received that were of a general or overall nature:**

*Governmental Entity:* "Although I certainly understand the issues associated with the Sarbanes-Oxley Act I strongly believe that its application across the board would appear to be a significant overkill..."

*Small Business Owner:* "I am on the audit committee of a local company. Since Sarbanes-Oxley, the amount of work required of our board, and the audit committee and, soon, a governance committee, has been burdensome as well as expensive. It has doubled, even tripled, our time and involvement. ...Small business owners have enough on their plates."

*Not-for-Profit Organization:* "the pool of available auditors will probably decrease, which may affect the quality of services provided by the smaller number of audit firms from which to select."

*Privately held Corporation:* "These rules may be appropriate for publicly traded companies, but I do not believe that they are good for all businesses. To me, this boils down to two specific issues: 1) depriving closely held businesses of the efficiencies and effectiveness of continuity and experience-based knowledge of all the professionals employed by the accounting firm they want to use, and 2) adding unnecessary costs to the process of having the Company's financial statements audited."

*Privately held Corporation:* "Applying these provisions to closely held companies would be an overreaction to an unsubstantiated problem. ...there is no evidence that similar problems even exist at the non-public company level."

*Banking:* "There are substantial differences between public companies and non-public businesses. Applying the Sarbanes-Oxley provisions to closely held companies would be overkill. ...legislation of this type will unduly burden Washington businesses."

*Mid-sized CPA Firm:* "In the public company arena, the investors and the company are distant. In most non-public companies, the company management and ownership are the same. This is the opposite of public companies. SOX is intended to protect ownership, i.e., the investing public, from the nefarious acts of management. This is simply unnecessary where ownership and management are the same."

*Professional Organization:* "enacting these independence provisions for non-SEC registrants in Washington would impose inefficiencies, increase costs, and cause harm to the non-SEC corporations of Washington with little, if any, benefit to the public. In addition, these provisions would drive a significant number of small CPA firms out of the audit and attest business, damaging the financial viability of these firms and limiting the number of CPA firms available to the small businesses of Washington."

**B. Comments received regarding requiring a CPA firm to rotate the partner in charge of an audit every 5 years:**

*Governmental Entity:* "since 53% of CPAs in Washington state are sole-proprietors ....the for-profit or non-profit entities they audit have to change auditors, as there would be no partner to rotate with - that could be expensive and in many cases harmful to the entity. "

*Banking:* "Smaller CPA firms would cease providing audit services; the pool of available qualified auditors will probably decrease, which may affect the cost and quality of services provided by the smaller number of audit firms from which to select; firm rotations are expensive and inefficient for the customer; the selection of auditors is essentially taken away from the client; smaller entities may forgo having an audit."

*Mid-sized CPA Firm:* "...partner rotation is practically unworkable for the smaller accounting firms that service non-public companies. Many accounting firms do not have multiple audit partners, or do not have multiple audit partners with expertise in the client's industry, or do not have multiple audit partners located in the client's city. These problems do not exist with national accounting firms serving publicly held companies because of the large number of audit partners, but they are real issues in the state of Washington if applied to non-publicly held companies."

*Small CPA Firm:* "... cost prohibitive and against public policy to require smaller companies to comply with similar legislation. ...so costly and punitive to the general public that it would have poor consequences not only to their businesses, but also, to our [CPA] profession."

*Small CPA Firm:* "The knowledge that a partner and a CPA firm gain relative to the client's business is essential to the quality and efficiency of an audit."

*Mid-sized CPA Firm:* "...these provisions would drive a significant number of small CPA firms out of the audit and attest business, damaging the financial viability of these firms and limiting the number of CPA firms available to the small businesses of Washington. ...For non-public companies, management and ownership are almost always one in the same. Added auditor independence provisions are simply unnecessary where ownership and management are the same."

*Sole-Practitioner:* "How does a sole proprietor "rotate" the "audit partner" every 5 years?" "...clearly punitive to small firms...I believe that is contrary to public policy to pass rules that clearly discriminate against small businesses. Second, there is no reason to believe that such a requirement would reduce audit failures. When the auditor has gotten to know the client very well over a long period of time they are more likely, rather than less likely, to have a thorough understanding of the client's business and accounting records, and know where there are likely to be problems..."

*Not-for-Profit Organization:* "Not-for-profits employ smaller, local firms...a requirement for partner rotation could cause smaller firms to lose clients... increased frequency of bidding on audits will increase the expense to the not-for-profits for audits...as the administrative costs for not-for-profits increase, a smaller percentage of donated dollars is spent on the mission..."

*Privately-held Corporation:* "Partner rotation would be bad enough because it would mean that I would have to cease a valued relationship with an individual, but it will also amount to firm rotation if my accounting firm only has one audit partner. This is extremely expensive and inefficient for me. ...It is also possible that the pool of auditors available in Washington will decrease which may affect the quality and cost of audit services. This will have a negative effect on the overall business climate in the state."

*Banking:* "As a lender, I value the advice that a CPA provides to borrowers. Often, a small company's financial guidance comes from their CPA. This guidance is critical in helping develop appropriate financial strategies as well as providing lenders reliable and accurate financial data. Partner rotation every five years for small, non-public companies serves no purpose except to break the bond of knowledge and trust between small business owners and their CPA. I can see no advantage for partner rotation for small, non-public companies."

*Regional CPA Firm:* "This requirement would unfairly take away significant business judgment from the client. This requirement will be costly to the client. Partner rotation may increase the risk of audit failure. Partner rotation is burdensome to CPA firms. There is no good reason to require partner rotation."

**C. Comments received regarding prohibiting a CPA firm from auditing an organization if the CEO, CFO or Chief Accountant of the organization participate in the audit of the firm (as an employee or owner of the CPA firm) within the twelve month period preceding the audit:**

*Privately held Corporation:* "Why would you want to restrict or limit my ability to hire the most talented person available? By enacting this provision, you will eliminate the best possible candidates available to privately held companies."

*Banking:* "By enacting this provision, you will eliminate the best possible candidates available to privately held companies. Small businesses often recruit accounting and finance employees from their accounting firm. ...why should a small business be forced to give up their accounting firm because they chose to hire a highly qualified person from that accounting firm?"

*Banking:* "It may lead to a change in the audit firm that is an expensive and inefficient process."

*Regional CPA Firm:* "We generally support the concept that independence is impaired for some period of time if a partner or senior manager level CPA who plays a significant role in the audit takes a high-level management position with the audit client. However, we do not necessarily agree with the notion that independence is impaired if any employee of a CPA firm accepts a position with the client."

**D. Comments received regarding prohibiting auditor's from providing certain non-attest services to attest clients:**

*Banking:* "It takes the decision away from management/owners as to who to hire to provide services for them; the level of knowledge the auditor has about the client may make the auditor a more efficient and effective provider; it may eliminate the best firm to provide the service for hire; services can become more expensive due to decreased competition..."

*Mid-sized CPA Firm:* "While restriction of non attest services is a laudable goal, with a practical effect in the publicly traded audits market, the application to small firms places a huge burden on the clients of small firms, fragmenting their advisors and advice among resources that may not have a full picture of the clients financial structure."

*Not-for-Profit Organization:* "With regard to prohibition of provision of certain non-attest services, I believe that it is not helpful to the public to apply this to not-for-profit agencies. The dollar compensation received when auditing a publicly held company versus a not-for-profit is vastly different. A firm auditing a not-for-profit does not receive the large influx of cash that an audit of a publicly held corporation generates, which may tempt auditors to engage in practices that may be prevented by barring provision of multiple services to a client. Many not-for-profit accountants do not have a professional degree in accounting and are highly dependent upon their auditors for guidance and advice throughout the year. This advice enables smaller agencies to issue accurate monthly statements that do not require large adjustments at year-end. Imposing the requirement to go to an additional accounting firm for information would discourage this practice and increase costs to not-for-profits while decreasing accuracy of interim financial statements provided to officers of the board, funding organizations, banking institutions, and many others."

*Mid-sized CPA Firm:* "has the effect of driving up the cost of service to small business clients, driving up the risk associated with the engagement..."

*Not-for-Profit Organization:* "First let me start by saying, I can understand some of the benefits of the Sarbanes-Oxley Act. However, I do enjoy the relationship that I currently have with my auditors. Since we are a non-profit and operate on a small margin, the accessibility to my auditors to answer questions and have guidance is very important since they understand our complex organization. I would hate to see organizations, such as ourselves, lose the benefit of our auditors being able to do some of our taxes and guidance on other tax issues, personnel, fundraising and other very important issues that face our organization on a frequent basis."

*Regional CPA Firm:* "We believe that for non-public enterprises, imposition of the provision of the Act that deal with non-attest services would serve to deprive business owners and managers of business and non-profit enterprises of the ability to chose their accounting services provider."

*Small CPA Firm:* "Our clients expect us to provide a wide number of service, including financial statements, software consultation, tax returns, tax advice, bookkeeping services and advice, budgeting, and forecasts. They do not want to go to different firms for different financial services. Each change increases the cost to the client, requires additional time for educating the new accountant, and frustrates the client personnel as they again explain their operations and accounting procedures. In addition, each new accountant requires a period of time, often several years, to fully understand the business and the owners. The CPA and the client need to gain trust in each other and explore how best to work together. Any separation of services to different providers complicates this process and is a disservice to clients, especially at the small business level. In summary, any changes at the state level to require separation of services consistent with Sarbanes-Oxley rules would only frustrate small business clients."

*Privately held Corporation:* "Imposing this Sarbanes-Oxley proscription at the non-public company level will reduce or eliminate my ability to obtain comprehensive business and financial input at a reasonable price and on a timely basis. ... Businesses select their CPA firm to perform consulting work because that firm has the best understanding of the business. What benefit would anyone derive from my being forced to hire a firm that has no knowledge of my business or company to "consult" with my company? I want to hire the best firm for the task at hand. Often that will be the firm that does my audit."

## **Appendix A - Independence Committee Roster**

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### **Committee Chair**

**Zoe A. Foltz, CPA, Chair (Current), Washington State Board of Accountancy**

### **Banking Organization**

**Lauren Jassny, The Commerce Bank**

### **Labor Unions**

**Larry Kenney, Labor Council**

### **Retirement Funds**

**Robert S. Nakahara, CPA, Washington State Investment Board**

### **Small Businesses**

**Astrid Aamot, Small Business Woman, Small Business Consultant & Member, Board of Accountancy**

### **Publicly Traded Organizations**

**Steve Hillyard, Vice President & Chief Accounting Officer, Weyerhaeuser**

### **Insurance and/or Bonding Agencies**

**Manh Pham, Accounting Superintendent, State Farm Insurance**

### **Organizations Required to have Audits in Compliance with GAO Requirements**

**Mike Bailey, CPA, Finance Director, City of Lynwood**

### **Sole Practitioner CPAs**

**Robert Loe, CPA, Robert Loe and Associates**

### **Local CPA Firms**

**Zoe Foltz, CPA, Fruci and Associates**

### **Mid-sized CPA Firms**

**Sharron O'Donnell, CPA, Bader, Martin, Ross & Smith, PS and Member, Board of Accountancy**

### **CPA Firms Providing Services to SEC Clients**

**Laurie Tish, CPA, Deloitte & Touche and Member, Board of Accountancy**

### **CPAs Auditing Governmental Organization**

**Rick Sweeney, CPA, Office of State Auditor**

### **Professional Organization: The Washington Society of CPAs**

**Adele Bolson, CPA**

### **Professional Organization: Washington Association of Accountants**

**Jerry Miller, President (Current)**

### **Regulatory Organizations**

**Dana M. McInturff, CPA, CFE, Executive Director, Board of Accountancy**